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**Department of Health and Family Services**

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TO: Audit Firms

FROM: Ann M. Anderson, CPA  
Lead Auditor for Single Audit  
Office of Program Review and Audit

SUBJECT: Tips on performing and reporting on audits involving funding from the  
Department of Health and Family Services

Welcome to another year. We wanted to take this opportunity to pass on some information about things to watch for in performing and reporting on audits involving funding from our department. Overall, we are pleased with the quality of audit work and reporting. Our workpaper reviews show some problems with audits, but overall most firms are applying standards appropriately and show good documentation of their audit work. And, over the last few years we've noticed that fewer audit reports require follow up on our part to complete our review of the reports.

Following is a list of some items to watch for when performing audits or preparing the audit reporting package. The list is broken down into three parts: the items which apply to all audits, those that apply only to audits performed in accordance with the *Provider Agency Audit Guide* (PAAG), and those that apply solely to audits performed in accordance with the *State Single Audit Guidelines* (SSAG). At the end, we also listed some of our upcoming projects.

All Audits

1. Our contracts require agencies to provide a copy of the management letter (or similar document relaying auditor's comments issued as a result of the audit) or written assurance a management letter was not issued. Agencies often do not send us the management letter or the assurance one wasn't issued when they send us their audit reports. Indicate whether or not a management letter was issued in the schedule of findings and questioned costs. If the schedule shows that there was no management letter, we accept that as the written assurance required by the contract. When you do issue a management letter, remind your agencies to include the letter in their reporting packages.
2. We also require management responses (corrective action plan) to all audit comments, and we do not consider the agency to have met its requirement to have an audit that meets our standards until we have these response. If practical to do so, incorporate management responses in the "Schedule of Findings and Questioned Costs" and in the management letter.

If management's responses are in a separate document, remind your agencies to send management's response to the department.

3. We often can't tell from a related party transaction disclosure whether the transaction resulted in unallowable costs being charged to department programs, but enough people miss the connection between related party transactions and potential unallowable costs that we don't feel comfortable that the lack of a finding indicating a problem actually means there was no problem. Indicate in the related party transaction disclosure whether the costs associated with a related party transaction that were charged to programs were allowable. If the costs aren't allowable, include a finding in the audit report.
4. Most agencies send in their audits on time or promptly after the first late audit notice, or they explain what's delaying the audit and request extensions of the audit due date. But some agencies ignore our letters asking for the audit until the third letter, when we threaten to withhold funding or to refer them to licensing staff for regulatory enforcement. That does not look good at this end. So, if you know you aren't going to be able to get the audit to us by the due date, send us a letter explaining why the audit will be late and letting us know when you expect to be able to complete the audit. We'll extend the due date for the audit report if the request is reasonable.
5. Instead of the traditional cost reimbursement contract, we're moving toward using more contracts that base payments on units of service, which are often capped on an allowable cost basis; on a capitated rate; or on achieving specific performance targets. Review contracts to make sure you understand the basis for payment and adjust your audit planning accordingly.
6. Many agencies still do not have written cost allocation plans, which are required if they allocate costs to department programs. In addition, some county auditors have assumed that they do not need to test cost allocation plans because the county hires someone from outside the county to prepare the plan. You should verify that the cost allocation plan is in writing, that the plan complies with the applicable allowable cost standards, and that the agency follows the plan.
7. We're moving toward using the web for issuing audit policy documents, including draft updates and final changes when they are complete. Presently, the 1999 revision to the *Provider Agency Audit Guide* ([www.dhfs.state.wi.us/grants/PAAG/index.htm](http://www.dhfs.state.wi.us/grants/PAAG/index.htm)) and the 2001 update to the *State Single Audit Guidelines* ([www.ssag.state.wi.us](http://www.ssag.state.wi.us)) are the most current versions. The draft for the 2002 update for the SSAG will be on the web within a few months.

PAAG Audits

8. The checklist in the *Provider Agency Audit Guide* can be useful to help ensure that all the required report elements for the type of audit being prepared (agency-wide audit; program audit, and agreed-upon procedures) are including in the audit reporting package.
9. Many audit reports do not include the “Statement of Functional Revenue and Expenses” or the “Schedule of Expenditures of Federal and State Awards,” both of which are required by the *Provider Agency Audit Guide*. While we will not reject an audit report *just because* it does not include these schedules, if we have concerns about the agency’s administration of our programs, we will look for these schedules and require that they be prepared if they are not included in the audit report. It’s better to include them right from the start than to have to prepare them later.
10. Some audit reports for for-profit organizations include a “Reserve Supplemental Schedule.” For-profits are allowed a profit, limited by the conditions in the *Allowable Cost Policy Manual*, while certain non-profit organizations are allowed to maintain a reserve. We have an calculator for determining allowable profit on our website at ([www.dhfs.state.wi.us/Grants/administration/allowprofit.htm](http://www.dhfs.state.wi.us/Grants/administration/allowprofit.htm)), and you should include a calculation of the allowable profit in your workpapers and prepare a finding if the agency’s profit exceeds the allowable limit.
11. Audit reports for agencies which operate group home or child caring institution facilities (now called “residential care centers for children and youth”) need to include an “Incorporated Group Home/Child Caring Institution Supplemental Schedule” for each group home or child caring institution facility. This schedule shows the total days of care for each facility and the allocation of costs between those which can be charged to Foster Care IV-E, Title XIX, and state funds. We divide the days of care into the Foster Care IV-E and Title XIX figures to come up with audited rates for those two programs, which we in turn use to support our claims from the federal government for funding from those programs. Since we risk losing out on federal funding if we don’t get these schedules, we will always follow up to get them or to get additional information if the information in these schedules doesn’t make sense.

SSAG Audits

12. The 2001 update to the *State Single Audit Guidelines* was released last fall, and it is online at [www.ssag.state.wi.us](http://www.ssag.state.wi.us). The *Guidelines* consist of the Main Document and appendices detailing audit requirements for each of the departments using the *Guidelines*. The Main

Document details how the state adopted OMB Circular A-133 for state programs, modifying it to meet the state's financial assistance environment. The Main Document also includes a description of the responsibilities of the various parties involved in the audit process and guidance on preparing the reporting package.

The DHFS Appendix to the *Guidelines* is effective for periods ending on or after December 31, 2001. The DHFS Appendix identifies three department programs that always need to be tested as major – Community Options Program, Community Integration Program I/Brain Injury Waiver/Community Supported Living Arrangements (a program cluster) and Family Care. In addition, the appendix also identifies four Type A programs, which need an annual risk assessment and which are tested as major if assessed risk is not low – Community Integration Program II, Personal Care, Case Management, and Community Services Deficit Reduction Benefit. It also provides new sections on testing the base county allocation and programs which do not have a compliance supplement.

Contacts for the *State Single Audit Guidelines*:

- The contact people for each of the departments using the *Guidelines* are listed on the website.
- The contact people for each of the compliance requirements for the DHFS Appendix are listed in the appendix.
- The Department of Administration has oversight responsibility for the *Guidelines*. DOA's contact person is Harvey Potter, [harvey.potter@doa.state.wi.us](mailto:harvey.potter@doa.state.wi.us), 608-267-6932.
- If in doubt on where to start, call one of our audit staff listed at the end of this memo.

13. Implementation of GASB 34 is underway. When changing over fixed asset records, keep in mind that assets that were charged to a grant at the time of purchase need to be earmarked so that depreciation is not also charged to grants, effectively having grants pay for the asset twice. Such assets would still appear on the depreciation schedule to recognize remaining useful life and book value. This is especially important for adherence to GASB 34 and for recognition that the granting agency has a reversionary interest in any remaining book value if the grantee ceases contracting with the granting agency.

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*What's coming up*

We have several audit-related projects in the thinking stage or underway:

- The 2002 update to the *State Single Audit Guidelines* is underway. As mentioned earlier, we expect to post the draft on the web for comment.
- We're considering modifying the *Provider Agency Audit Guide* to require a report showing allowable profit for audit reports of for-profit organizations.
- We're talking with the Wisconsin Institute of Certified Public Accountants about incorporating state standards into the items checked in peer review.

Send Ann Anderson an email if you would like email notification of progress on these projects.

Also, we've recently done presentations on state audit standards for several firms at their in-house training sessions. We'll do the same for other firms, if time permits and if you can get together enough staff to make our sending a speaker worthwhile. Contact Ann if you are interested in having our staff participate in training.

If you have any questions, please feel free to contact anybody in the office. Our numbers and email addresses are:

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